

Audit Opinion

When an auditor issues a report, there are four ways they can express an opinion on the audited financial statements: unqualified, qualified, disclaimer, and adverse (see below). The auditor is required to state in the opinion whether generally accepted accounting principles (GAAP) have been followed and applied consistently.

1. **Unmodified opinion** — this is the desired opinion and means there are no reservations about the financial statements. This opinion is often called a clean opinion, meaning that the financial statements are presented fairly.
2. **Qualified opinion** — this means that the auditor has found some exception(s) to the accounting applications, or that misstatements, individually or in the aggregate, are material to the financial statements but not pervasive.
3. **Adverse opinion** — this means that the auditor, having obtained sufficient audit evidence, concludes that misstatements, individually or in the aggregate, are both material to the financial statements and pervasive. The financial statements do not fairly present the financial position, results of operations, and changes in financial position, and thus are not in conformity to GAAP.
4. **Disclaimer of opinion** — this means that the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. The auditor is not allowing their name to be associated with financial statements that could not be examined in accordance with GAAP.